

PRESERVING THE TONNAGE TAX FOR THE U.S.-FLAG COMMERCIAL FLEET KEEPS THE U.S. INTERNATIONALLY COMPETITIVE AND SECURE

Background. As part of the American Jobs Creation Act of 2004, Congress adopted a tonnage tax regime for U.S.-flag commercial vessels operating in foreign commerce. The tonnage tax is available only to privately-owned U.S.-flag vessels of no less than 6,000 dead weight tons that are engaged in the foreign trade of the U.S. The Congress reasonably concluded that enactment of the tonnage tax would address the competitive disadvantage the U.S.-flag commercial fleet faced against their foreign competitors and would create a positive economic environment for U.S.-flag carriers and the U.S. jobs they create.

Comparison of Tax Liability. In considering the tonnage tax, the House Ways and Means Committee said:

“In general, operators of U.S.-flag vessels in international trade are subject to higher taxes than their foreign-based competition. The uncompetitive U.S. taxation of shipping income has caused a steady and substantial decline of the U.S. shipping industry. The Committee believes that this provision will provide the operators of U.S.-flag vessels in international trade the opportunity to be competitive with their tax-advantaged foreign competitors.” (H.R. Rep. No. 108-548, at 177 (2004))

Moreover, most foreign-based shipping competitors enjoy special low- or no-tax regimes for their shipping income in their country of residence, and they pay no U.S. tax on income from voyages to and from the U.S. under U.S. tax law or treaties.

“Tonnage Tax” Regimes. By 2004, 14 foreign jurisdictions, including many of the industrialized partners of the U.S., had developed tonnage tax regimes. Today, there are 28 foreign jurisdictions that have tonnage tax regimes (see attached list), underscoring the competitive importance of the necessity of keeping the U.S. tonnage tax regime in place.

Positive Effect of U.S. Tonnage Tax. After World War II, the United States had over 2,000 U.S.-flag commercial vessels. That fleet declined precipitously over the next 50 years, primarily due to the development of no-tax or low-tax regimes in innumerable foreign countries. Upon the enactment of the tonnage tax in the United States, this decline in U.S.-flag ships has been halted and, once again, the U.S.-flag fleet is growing. Between 2004 and 2010, there has been approximately an 18 percent increase in the number of U.S. flag vessels of no less than 6,000 dead weight tons in the foreign trade and a 37 percent increase in dead weight tonnage. In addition, this has produced a modernized, more efficient fleet.

National Security. In addition to preserving and enhancing the U.S.-flag commercial fleet and the thousands of U.S. jobs it supports, the availability of these vessels crewed by U.S. merchant mariners to support our troops during times of military conflict is a critical benefit that the tonnage tax provides. In 1992, then-Chairman of the Joint Chiefs of Staff General Colin Powell said:

“Since I became Chairman . . . , I have come to appreciate firsthand why our merchant marine has long been called the nation’s fourth arm of defense . . . The war in the Persian Gulf is over but the merchant marine’s contribution to our nation continues. In war, merchant seamen have long served with valor and distinction by carrying critical supplies and equipment to our troops in faraway lands. In peacetime, the merchant marine has another vital role—contributing to our economic security by linking us to our trading partners around the world and providing the foundation for our ocean commerce.”

Comprehensive Tax Reform. As efforts continue in the House Ways and Means and Senate Finance Committees to develop broad support for comprehensive tax reform, there already appears to be a bipartisan and bicameral agreement that our tax code is harming U.S. businesses operating internationally. As Chairman Baucus recently said, “We need to make the system fairer and help make U.S. businesses more competitive in the global marketplace.” And as Chairman Camp observed separately, “I . . . believe we can use tax reform to make American businesses and workers more competitive in the global marketplace.” In enacting the tonnage tax, the Congress took an important step in beginning to level the field for U.S.-flag shipping companies, and preserving that success as part of comprehensive tax reform is critically important.

<p>“TONNAGE TAX” REGIMES IMPLEMENTED IN FOREIGN JURISDICTIONS</p>
--

- United Kingdom
- Germany
- France
- China (People’s Republic)
- India
- Japan
- Pakistan
- Spain
- Denmark
- Belgium
- Italy
- Finland
- Netherlands
- Norway
- Latvia
- Lithuania
- Poland
- Ireland
- Slovenia
- South Korea
- Greece
- Cyprus
- Malta
- Taiwan
- Bulgaria
- Curacao
- Guadeloupe
- French Guiana
- Martinique
- Sweden (proposed)